

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE  
AUDIT OFFICE

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CALIFORNIA RAISIN MARKETING BOARD

AUDIT REPORT #09-063

CALIFORNIA RAISIN MARKETING BOARD

AUDIT REPORT

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Mr. Robert Maxie, Branch Chief  
Marketing Services  
California Department of Food and Agriculture  
1220 N Street  
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The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the Audit Office to perform a limited scope fiscal and compliance audit of California Raisin Marketing Board (Marketing Board). The objective of this audit was to determine whether certain activities and expenditures incurred by the marketing board comply with the law and are within Board authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the Marketing Board's financial records.

The audit scope was limited by the Marketing Branch as it related to certain expenditures. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

Furthermore, our audit scope was limited to the fiscal years 2006/2007, 2007/2008, and the first six months of fiscal year 2008/2009. Although the scope was limited to these years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, reviewing the Marketing Board's:

- Compliance with various rules and regulations
- Employee and Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts
- Research grants
- Payroll documents

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and California Raisin Marketing Board and should not be used for any other purpose.



Ron Shackelford, CPA  
Chief, Audit Office  
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## EXECUTIVE SUMMARY

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the California Raisin Marketing Board (Marketing Board) to determine whether certain activities and expenditures incurred comply with the law and are within Board authority. In order to accomplish this, our primary focus was the Marketing Board's expenses and compliance with various rules and regulations. The following administrative weaknesses were noted:

- The Marketing Board paid for employee bonuses, employee holiday parties, and alcohol, which do not appear to further the Marketing Board's mission. We further noted instances that may appear lavish, which include business meals over \$100 per person, and lodging in California, which exceeded the allowed rate. State law requires public money be used to further a department's mission.
- A review of the expenses revealed a lack of documentation for expenses charged on the corporate credit card or paid by check.
- The Marketing Board does not always have full accountability over its research grants. The funding paid to researchers is based on an invoice, and the final payment is paid when the final research report is completed. During the audit period, some researchers provided a full accounting for the research project. However, our audit sample indicates the Marketing Board did not require all of its grantees to provide progress reports or a final accounting over the grant money awarded them. Timelier oversight by the Marketing Board would help ensure that the all amounts paid for research were used for their intended purposes.
- The terms for service contracts are vague and do not include a "not to exceed" clause. Without this, the Marketing Board is exposed to the risk of the contractor seeking reimbursements that may appear excessive.
- The Marketing Board did not have written documentation to demonstrate that a competitive bidding effort occurred or to justify the reason for not seeking competitive bids for several service contracts.

### KEY RECOMMENDATIONS

1. *The Marketing Board should ensure it only incurs expenses necessary to support their mission and which do not conflict with its policy.*
2. *The Marketing Board should collect any monies determined to be a gift of public funds.*
3. *The Marketing Board should continue its efforts to ensure its employees support all corporate credit card charges incurred with an itemized receipt or invoice.*
4. *The Marketing Board should continue its efforts to ensure any personal charges on the corporate credit card are repaid.*
5. *The Marketing Board should continue its efforts to ensure all expenses paid by check, including reimbursements to employees or the Raisin Administrative Committee, are supported with an itemized receipt or invoice.*
6. *The Marketing Board should improve its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*
7. *The Marketing Board should clarify the reimbursable expense clause in service contracts by including a maximum reimbursement or a “not to exceed” clause.*
8. *The Marketing Board should ensure service contracts have documentation to demonstrate a competitive bidding effort occurred or to demonstrate the reason for not competitively bidding out the service.*

## REPORTABLE FINDINGS

### QUESTIONABLE EXPENSES

During our review of the expenses paid by the corporate credit card or by operating check, we noted the Marketing Board paid for the following expenses, which may be considered a gift of public funds, appear excessive, and/or do not appear to benefit the State:

- In December 2007 and December 2008, the Marketing Board provided its employees with year-end cash gifts totaling \$1,100. Based on the documentation provided, the expense was noted as “Christmas Gifts.” It should be noted that the gifting of public monies is not permitted.
- The Marketing Board exceeded the three times the State rate for per diem and hotel charges on a few occasions. For example, we noted five instances of meals at a restaurant totaling more than \$100 per person. In particular, one dinner event in New York for 12 people totaled \$2,982. According to the Marketing Board, a special prix fix menu emphasizing raisins was prepared by the chef at the restaurant. The attendees include nutrition consultants and experts from various media outlets.

We also noted a charge of \$269 per night in Napa, California and \$335 per night in Laguna Beach, California. Additionally, we noted at least 5 instances when lodging outside of California was over \$300 per night. The highest amount we noted was \$469 per night for lodging in Chicago, Illinois. According to the Marketing Board, all the hotels in the area were charging a premium rate because of a football game.

- The Marketing Board paid for three annual employee holiday parties, birthday cakes, and a monthly coffee service totaling \$1,625. Another \$4,365 was spent on alcohol during the audit period. We also noted the Marketing Board reimbursed an employee for \$350 for United Airlines Red Carpet Club for annual access to United Airlines’ airport lounges. According to the Marketing Board, this fee was paid because it was a convenient place to reschedule six passengers to Oakland, Seattle, and Sacramento after all missed their connecting flights. However, according to the draft of the California Raisin Marketing Board’s policy, this type of expense is not allowed.

#### *Recommendations*

1. *The Marketing Board should ensure it only incurs expenses necessary to support their mission and which do not conflict with its policy.*
2. *The Marketing Board should collect any monies determined to be a gift of public funds.*

### CREDIT CARD EXPENSES

Credit card purchases did not always have the documentation necessary to support and/or justify the expense. During our audit period, we reviewed 12 separate corporate credit card accounts. Additionally, we noted one employee had two separate credit cards. All expenses incurred on the credit cards were paid in full by the Marketing Board.



For the three-year period audited, our office noted 112 instances totaling \$17,497 of \$441,369, or 4.0% of expenses charged to the credit cards that were not adequately supported with any receipts. Included in the unsupported expenses is the entire month's documentation from one employee's corporate credit card. The Marketing Board was able to obtain some receipts from the merchant; however, a total of \$5,041 was not supported. These expenses were on the November 2006 credit card statement and included \$1,711 at the Ritz Carlton in Amelia Island, Florida; \$541 and \$366 at the World Market in Fresno; and \$519 and \$280 at Miramonte Resort in Indian Wells, California. **Table 1** further indicates the categories of the unsupported credit card expenses. The expenses are categorized based on merchant name.

**Table 1**

<b>CDEA Audit of the California Raisin Marketing Board</b> <b>Summary of Credit Card Charges without Supporting Documentation</b> <b>For the Period August 1, 2006 – January 31, 2009</b>						
<b>Cardholder</b>	<b>Food &amp; Beverage</b>	<b>Hotels &amp; Airfare</b>	<b>Conferences/ Meetings</b>	<b>Office Supplies</b>	<b>Other</b>	<b>Total Charges Without Receipts</b>
Employee A	\$ 1,049	\$ 4,601	\$ 1,747	\$ -	\$ 218	\$ 7,615
Employee B	973	3,021	541	182	1,141	5,858
Employees C - K	767	2,865	240	-	152	4,024
<b>Totals</b>	<b>\$ 2,789</b>	<b>\$ 10,487</b>	<b>\$ 2,528</b>	<b>\$ 182</b>	<b>\$ 1,511</b>	<b>\$ 17,497</b>

Without adequate supporting documentation, our office cannot determine whether the charges noted in **Table 1** were reasonable, appropriate, or business related. Additionally, we are unable to determine whether these expenses were thoroughly reviewed for appropriateness prior to payment.

Furthermore, we noted at least 148 instances totaling \$11,776 in food and beverage expenditures, which lacked detailed receipts, since only credit card slips and/or hotel folio were provided. These amounts are not included in **Table 1**. These receipts only indicate the final total amount charged and do not indicate the specific service or items purchased. Among the food and beverage expenditures without detailed receipts were \$651 charged at Lucca in Sacramento, California and \$498 charged at Moonfish in Orlando, Florida. Without an itemized receipt or a receipt that clearly identifies the items or services purchased, which provides transparency to the nature of the expense, our office cannot attest to the reasonableness of the expenditure.

Based on the general ledger and the accounts receivable documentation, it appears that the Marketing Board would immediately establish an accounts receivable for an employee upon

noting charges of personal expenses, including in-room movies and spa treatments at the hotel during travel, on the corporate credit card or personal packages sent with the corporate Federal Express account. Based on the draft of the California Raisin Marketing Board's policy, the corporate credit cards are to be used for business related expenses only; therefore, personal expenses are prohibited from being charged to the credit card. For the audit period, it was noted that a total between \$30 and \$1,392 in personal expenses was recorded as an accounts receivable for at least eight employees. It appears the Marketing Board is active in tracking the employees' accounts receivable to ensure all employees repay the Marketing Board. The employee that had the highest personal credit card charges and Federal Express shipments, which totaled \$1,392, is no longer employed at the Marketing Board and has repaid the entire amount. After this person's departure, there appears to be a decrease in activity with employee accounts receivable. The Marketing Board should continue its efforts in maintaining that all expenses the Marketing Board pays for are business related.

#### *Recommendations*

3. *The Marketing Board should continue its efforts to ensure its employees support all corporate credit card charges incurred with an itemized receipt or invoice.*
4. *The Marketing Board should continue its efforts to ensure any personal charges on the corporate credit card are repaid.*

### **PAYMENTS FROM OPERATING CHECKS**

In addition to the credit card expenses, we reviewed expenses paid by operating checks to various vendors, which included reimbursements to Marketing Board employees and to the Raisin Administrative Committee (RAC). The RAC is a separate entity from the Marketing Board and has a separate general ledger and separate financial audit. According to the Marketing Board, the RAC and Marketing Board have an agreement, in which the Marketing Board pays the RAC for management and facility support and reimburses the RAC for shared expenses. The RAC is responsible for volume control of raisins in the market, while the Marketing Board promotes and provides research support for California raisins. We did not audit any expenses incurred by RAC unless RAC billed the Marketing Board for a particular expense.

Additionally, the expenses paid by operating checks were not always supported by receipts to justify the payments. At least \$894 was not supported with any receipts. Furthermore, when reviewing reimbursements to employees or RAC, we noted six instances totaling \$490 that had at least a credit card receipt or hotel folio, but no detailed receipt indicating the service or items purchased. These expenses were restaurant related and, as we noted above, we are unable to determine the reasonableness of the expenditure.

#### *Recommendation*

5. *The Marketing Board should continue its efforts to ensure all expenses paid by check, including reimbursements to employees or the Raisin Administrative Committee, are supported with an itemized receipt or invoice.*

**INTERNAL CONTROL WEAKNESSES IN RESEARCH GRANT CONTRACTS**

Based on the general ledger, the Marketing Board has awarded between \$161,015 and \$181,509 annually during the audit period to various organizations for crop research. Based on our analysis of the research grants provided, our office noted that a detailed final accounting of the grant money awarded to the organizations was not required prior to issuance of the final payment of the grant. Instead, the researchers provided an invoice to the Marketing Board stating only the balance due to the researchers. We noted these invoices do not have sufficient detail as to how the grant money was spent. The invoices only indicated the award amount and the balance due from Agreement, which was usually 50% of the grant.

The Marketing Board should hold the grantees more accountable for the funds awarded, to ensure the funds are used solely for the intended purpose. Although a budget is included in the grant contract, the Marketing Board should not rely only on the budget presented to account for the final expenses, since the actual expenditures incurred could vary significantly from the budgeted amount. Our office recommends the Marketing Board require grantees to provide progress reports and a final accounting for the grant funds awarded to them. Progress reports are useful analytical tools that provide supplementary information regarding the status of the grant projects and could possibly identify any potential concerns or questions the Marketing Board may have. In addition, a final accounting of actual expenses would allow the Marketing Board to determine whether use of the grant award was for the intended purpose and whether any grant money remained unspent. Ultimately, these reports will improve internal controls by providing more transparency over expenditures incurred by the researchers.

*Recommendation*

6. *The Marketing Board should improve its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*

**INTERNAL CONTROL WEAKNESSES IN CONTRACTS**

Upon review of the service contracts, in particular contracts for chef services, we noted the terms of the contract regarding reimbursable expenses are vague and do not include a “not to exceed” clause. Without this clause the Marketing Board is exposed to the risk of the contractor seeking reimbursements which may appear excessive. For example, we noted a contractor was reimbursed for lodging at a rate of \$321 and \$459 per night, while a Marketing Board employee’s lodging for the same event was at the highest \$171 per night.

Additionally, our office noted that the Marketing Board did not have documentation demonstrating a competitive bidding effort occurred for some of its service contracts. For instance, the Marketing Board did not seek bids for its chefs, food technicians, registered dietitian, recipe writers and testers, etc. According to the Marketing Board, upon our questioning during fieldwork, these contracts did not go out to bid because of the specialized services the individual or company could provide. We are aware that many of these services

sought were from highly skilled professionals who have a specific expertise within the industry. Accordingly, it is understood that it may not be in the best interest of the Marketing Board to bid out these highly skilled service contracts. However, we recommend the Marketing Board document the reason for not seeking competitive bids for certain services to ensure that due diligence is done prior to signing the contract.

*Recommendations*

- 7. The Marketing Board should clarify the reimbursable expense clause in the service contracts by including a maximum reimbursement or a “not to exceed” clause.*
- 8. The Marketing Board should ensure service contracts have documentation to demonstrate a competitive bidding effort occurred or to demonstrate the reason for not competitively bidding out the service.*

**CALIFORNIA RAISIN MARKETING BOARD'S RESPONSE**

# CALIFORNIA RAISIN MARKETING BOARD

August 20, 2009

Mr. Ron Shackelford  
Chief, Audit Office  
Department of Food and Agriculture  
1220 N Street, Room 344  
Sacramento, California 95814

Subject: California Raisin Marketing Board (CRMB) Management Response to Audit Report No. 09-063

Dear Mr. Shackelford:

Thank you for opportunity to respond to the California Department of Food and Agriculture (CDFA) review recommendations. We generally agree with the auditors' recommendations. In the following Management Response we have addressed each of the recommendations and provided our response to each, including where appropriate a corrective action plan for your consideration.

Please contact me if you have any questions or comments about our response.

Sincerely,



Gary Schulz  
President/General Manager  
California Raisin Marketing Board

Cc: Mr. Robert Maxie, Branch Chief

Management Response

Recommendation 1 - The Marketing Board should ensure it only incurs expenses necessary to support their mission and which do not conflict with its policy.

**Response: We agree with the recommendation of not incurring expenses other than those necessary to support our mission and our policy. We were able to demonstrate to the auditors that we have taken corrective steps to assure this practice.**

Recommendation 2 – The Marketing Board should collect any monies determined to be a gift of public funds.

**Response: We agree with the recommendation that public funds should not be used to provide gifts to the employees and have taken steps to assure that this will not occur again. However, collecting the \$600 given as Christmas gifts to those 6 employees would create a hardship.**

Recommendation 3 – The Marketing Board should continue its efforts to ensure its employees support all corporate credit card charges incurred with an itemized receipt or invoice.

**Response: We concur with this recommendation and as stated we have and will continue to assure that these efforts continue.**

Recommendation 4 – The Marketing Board should continue its efforts to ensure any personal charges on the corporate credit cards are repaid.

**Response: We concur with this recommendation and as stated we have and will continue to assure that these efforts continue.**

Recommendation 5 – The Marketing Board should continue its efforts to ensure all expenses paid by check, including reimbursements to employees or the Raisin Administrative Committee, are supported with an itemized receipt or invoice.

**Response: We concur with this recommendation and as stated we have and will continue to assure that these efforts continue.**

Recommendation 6 – The Marketing Board should improve its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.

**Response: We agree with this recommendation and taken steps to clarify and emphasize this requirement with all new contracts for the Crop Year beginning August 1, 2009.**

Recommendation 7 – The Marketing Board should clarify the reimbursable expense clause in service contracts by including a maximum reimbursement or a “not to exceed” clause.

**Response: We agree with this recommendation and taken steps to clarify and emphasize this requirement with all new contracts for the Crop Year beginning August 1, 2009.**

Recommendation 8 – The Marketing Board should ensure service contracts have documentation to demonstrate a competitive bidding effort occurred or to demonstrate the reason for not competitively bidding out the service.

**Response: We agree with this recommendation and have taken steps to assure that sufficient documentation of competitive bidding occurred or to demonstrate the reasons for sole-source awards.**



### **CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the California Raisin Marketing Board for its review and response. Our office has reviewed the Marketing Board's response and, to provide clarity and perspective, we are including the following comments. The Marketing Board indicated it would comply with our audit recommendations and not provide any cash gifts to employees in the future. However, they indicated it would be considered a hardship to collect the \$1,100 awarded (noted as \$600 by the Marketing Board) in cash gifts to its employees in 2007 and 2008. Our office cautions the Marketing Board that gifting of any public funds is prohibited by the State Constitution and should be collected.

### **DISPOSITION OF AUDIT RESULTS**

The findings in this report are based on fieldwork my staff performed March 16, 2009 through April 10, 2009. My staff met with management on April 10, 2009 for a preliminary exit to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the Marketing Board for their review and action if necessary. However, this report is public document and its distribution is not restricted.

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	Chairman, California Raisin Marketing Board
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office